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RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE

C O N F I D E N T I A L SECTION 01 OF 02 ABU DHABI 001079

SIPDIS

DEPARTMENT FOR NEA/ARP (BMASILKO)

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TAGS: [EFIN](#) [ECON](#) [EINV](#) [PGOV](#) [AE](#)

SUBJECT: EYES ON THE MARKET, EMIRATIS PUT ON THEIR GAME FACES

REF: ABU DHABI 950

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Classified by Charge d'Affaires Douglas Greene, Reasons 1.4 (b,d).

¶1. (C) Summary. With extensive investments in the US and around the world, Emiratis are carefully following the turmoil in the world economy and local markets. While most are publicly saying recent developments in the US economy will not have a significant impact here, both public and private investors have likely lost millions in world markets. At the same time, local stock indexes in Abu Dhabi and Dubai continue to decline. Most officials, however, remain confident that strong local growth will continue, even in the face of declining oil prices and liquidity. End summary.

¶2. (SBU) Although local and international economic woes have been above-the-fold stories in the local press for weeks, publicly officials remain optimistic. In a September 17 interview, Minister of Economy Sultan al-Mansouri claimed the UAE economy is "immune from crises." UAE Central Bank Governor Sultan Nasser al-Sowaidi was quoted as saying that the UAE is not posed with any systemic risk. Yet, on September 17, the Central Bank asked all banks to report their exposure to Lehman Brothers. Lehman had an office in Dubai International Financial Center, now reported closed by the Dubai Financial Services Authority, and is thought to have had as much as \$50 million holdings in local markets. DIFC Governor Dr. Omar bin Suliaman, however, told the Consul General that the Lehman staff will be allowed to remain in the UAE and seek other employment.

¶3. (C) While some losses are blatantly obvious, such as the rapid decline of Abu Dhabi Investment Authority's Citibank holdings, it is not clear how significantly public accounts have been impacted. At least one Abu Dhabi-owned investment fund has already announced it will stay on the sidelines: Mubadala Operations CEO Walid al-Mehairi publicly said this is not the time for investment. Private investments abroad have clearly declined in value, but the extent of the losses and the impact on the local economy remains to be seen. Some contacts report that private exposure to US markets is limited, but some Emirati businessmen admit to significant holdings in troubled US institutions.

¶4. (C) Local stocks continue to tumble, in part due to the impact of US markets on local sentiments (reftel). Recent corruption investigations in the local real estate development industry have also played a part. However, the markets are small and subject to significant speculation. Financial experts note that strong economic growth has presented Emiratis with many investment alternatives and limited liquidity. Some, like Ministry of Foreign Trade Undersecretary Abdullah al-Saleh, view the local and international downturn as an investment opportunity. While some speculation exists, the cautious majority has adopted a wait and see attitude. Recently appointed Dubai Department of Economic Development head Sami al Qemzi told the Consul General that the turmoil and diminished liquidity would have two effects - one salutary, lessening the rampant speculation in the Dubai property market; and one less

positive, squeezing prime developers with little cash on hand and likely slowing development in the Emirate - and potentially killing some projects. In a separate conversation, Dubai-based Algebra Capital head Iyad Duwaji broadly concurred with these conclusions.

15. (C) More broadly, Abu Dhabi Department of Finance Undersecretary Hamad al-Hurr al-Suwaidi told Econoff on September 15 that the slowdown in the world economy would have little impact on the Emirate of Abu Dhabi. Al-Suwaidi predicted that, as international liquidity declines, the government will inject liquidity into the market to keep growth steady. On September 22, the Central Bank announced the establishment of an AED 50 billion (USD 13.6 billion) fund for local banks designed to ease liquidity constraints (further details to be reported septel). Despite the fact that this may fuel already high inflation, several Emirati officials have opined that inflation are of little concern to nationals who continue to benefit from strong growth.

16. (C) Similarly, officials seem unfazed by declining oil prices. The Central Bank Governor has said the UAE economy would remain in good shape even if oil prices fell to \$60/barrel. Undersecretary al-Suwaidi confirmed that the Abu Dhabi's growth would continue, as its sovereign wealth funds insulate the local economy from oil price fluctuations. (Comment: It is, of course, these very funds that may have significant exposure to the current instability in global markets. End Comment.) Abu Dhabi National Oil Company (ADNOC) Deputy CEO Abdalla Nasser al-Suwaidi told EconChief on September 4 that \$80/barrel was probably a fair oil price and that ADNOC would not be concerned unless prices fell below \$60/barrel.

17. (C) Comment. Clearly, public and private investors are watching the local and international downturn with concern. No one invests to lose money, but most investors seem cautiously optimistic. So far, most Emiratis remain confident that their economic future is bright, although future liquidity problems seem likely to impact the

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Dubai development boom to some degree. End Comment.